

# **Nottinghamshire Pension Fund Committee**

**Thursday, 02 March 2023 at 10:30**

**County Hall, West Bridgford, Nottingham, NG2 7QP**

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## **AGENDA**

- |    |   |         |
|----|---|---------|
| 1  | Minutes of the last meeting held on 8 December 2022   | 5 - 10  |
| 2  | To note the replacement of Councillor Chris Barnfather with Councillor Roger Jackson as a member of the Committee and of Alan Woodward with Yvonne Davidson as a Trade Union representative |         |
| 3  | Apologies for Absence   |         |
| 4  | Declarations of Interests by Members and Officers:- (see note below)<br>(a) Disclosable Pecuniary Interests<br>(b) Private Interests (pecuniary and non-pecuniary)                          |         |
| 5  | McCloud update and extension of project manager role  | 11 - 16 |
| 6  | Strategic Asset Allocation working party report   | 17 - 26 |
| 7  | Pension Fund Treasury Management Strategy Statement 2023-24   | 27 - 38 |
| 8  | Conferences and Training  | 39 - 42 |
| 9  | Independent Adviser's report  | 43 - 46 |
| 10 | Work Programme  | 47 - 50 |

12 EXCLUSION OF THE PUBLIC

The Committee will be invited to resolve:-

“That the public be excluded for the remainder of the meeting on the grounds that the discussions are likely to involve disclosure of exempt information described in Schedule 12A of the Local Government Act 1972 and the public interest in maintaining the exemption outweighs the public interest in disclosing the information.”

**Note**

If this is agreed, the public will have to leave the meeting during consideration of the following items.

**EXEMPT INFORMATION ITEMS**

13 Fund Valuation and Performance - Exempt Appendix

- Information relating to the financial or business affairs of any particular person (including the authority holding that information);

14 Fund Managers' presentations

- a) Ayr
- b) Schroders

**Notes**

- (1) Councillors are advised to contact their Research Officer for details of any Group Meetings which are planned for this meeting.
- (2) Members of the public wishing to inspect "Background Papers" referred to in the reports on the agenda or Schedule 12A of the Local Government Act should contact:-

Customer Services Centre 0300 500 80 80

- (3) Persons making a declaration of interest should have regard to the Code of Conduct and the Council's Procedure Rules. Those declaring must indicate the nature of their interest and the reasons for the declaration.

Councillors or Officers requiring clarification on whether to make a declaration of interest are invited to contact Jo Toomey (Tel. 0115 977 4506) or a colleague in Democratic Services prior to the meeting.

- (4) Councillors are reminded that Committee and Sub-Committee papers, with the exception of those which contain Exempt or Confidential Information, may be recycled.

- (5) This agenda and its associated reports are available to view online via an online calendar - <http://www.nottinghamshire.gov.uk/dms/Meetings.aspx>





Meeting	NOTTINGHAMSHIRE PENSION FUND COMMITTEE
Date	Thursday 8 December 2022 at 10.30 am

**membership**

**COUNCILLORS**

Eric Kerry (Chairman)  
Mike Introna (Vice Chairman)

Chris Barnfather  
André Camilleri  
John Clarke MBE  
Bethan Eddy  
Stephen Garner

Sheila Place  
Francis Purdue-Horan  
Tom Smith  
Lee Waters - **Apologies**

**NON-VOTING MEMBERS:**

**Nottingham City Council**

Councillor Graham Chapman  
Councillor Sally Longford  
Councillor Zafran Khan - **Apologies**

**District / Borough Council Representatives**

Councillor David Lloyd, Newark and Sherwood District Council - **Absent**  
Councillor Gordon Moore, Rushcliffe Borough Council - **Apologies**

**Trades Unions**

Alan Woodward - **Absent**  
Chris King - **Apologies**

**Scheduled Bodies**

Sue Reader - **Apologies**

**Pensioners' Representatives**

Vacancy x 2

**Independent Adviser**

William Bourne

## **Officers in Attendance**

Nigel Stevenson	(Chief Executive's Department)
Jon Clewes	(Chief Executive's Department)
Tamsin Rabbitts	(Chief Executive's Department)
Jo Toomey	(Chief Executive's Department)

### **1. MINUTES OF THE LAST MEETING HELD ON 10 NOVEMBER 2022**

The minutes of the last meeting held on 10 November 2022 were confirmed as a correct record for signing by the Chair.

An enquiry was made about an action relating to benchmarking data for treasury management activity which was recorded in the minutes. Members of the Committee were advised that officers were identifying any relevant benchmark information and anything that they were able to find would be included in the next treasury management performance report to Committee.

### **2. APOLOGIES FOR ABSENCE**

- Councillor Lee Waters (other reasons)
- Councillor Zafran Khan (Nottingham City Council)
- Councillor Gordon Moore (Rushcliffe Borough Council)
- Chris King (Trade Union representative)
- Sue Reader (Scheduled Bodies representative)

### **3. DECLARATIONS OF INTEREST BY MEMBERS AND OFFICERS**

None were disclosed.

### **4. PENSIONS ADMINISTRATION AND TRANSFORMATION UPDATE**

The report, which was presented by the Pensions Manager, updated the Committee on the data audit and improvement workstream within the “transforming pension administration through digital development and new ways of working” programme.

During discussions, Members:

- Noted the improvements in data accuracy that had been achieved
- Were informed that the checks the Fund was undertaking were in excess of those currently required by the Pensions Regulator to stand it in a stronger position for the rollout of the pension dashboard programme

### **RESOLVED 2022/048**

That Committee agreed to receive ongoing update reports on the progress of the programme.

### **5. INDEPENDENT ADVISER'S REPORT**

The Independent Advisor to the Committee presented his report.

During discussions, Members:

- Sought reassurance about whether the current diversification of investments was sufficient to protect the Fund from the impact of recent market disruptions
- Asked about the anticipated impact of the triennial valuation on employer contributions
- Referred to levels of inflation internationally and the impact of the relaxing of COVID-19 restrictions in China

#### **RESOLVED 2022/049**

That the report of the Independent Adviser to the Committee be noted.

### **6. WORK PROGRAMME**

In considering the work programme, a question was raised about updates on the European property growth fund, which members noted was included within the quarterly reporting.

#### **RESOLVED 2022/050**

That the work programme be agreed.

### **7. CLIMATE RISK ANALYSIS AND TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES**

The Senior Accountant (Pensions and Treasury Management) presented the climate risk analysis and task force on climate-related financial disclosures report. It incorporated the climate risk analysis that had been produced by LGPS Central.

During discussions, Members:

- Debated whether the fund should set a target date for achieving carbon neutrality
- Noted LGPS Central was trying to gather evidence around the impact of engagement activity with a view to incorporating it in future reports and updates
- Referred to the role of stewardship and opportunities to influence the activities of companies in which the fund was invested

#### **RESOLVED 2022/051**

1. That the new actions set out in the report be included in the Climate Action report.
2. That no other actions were required in relation to the issues contained within this report.

### **8. FUND VALUATION AND PERFORMANCE**

The Fund valuation and performance report, which set out the total value and performance of the Pension Fund to 30 September 2022, was presented.

## **RESOLVED 2022/052**

That no other actions were required in relation to the issues contained within the report.

### **9. EXCLUSION OF THE PUBLIC**

#### **RESOLVED 2022/053**

That the public be excluded for the remainder of the meeting on the grounds that the discussions were likely to involve disclosure of exempt information described in schedule 12A of the Local Government Act 1972 and the public interest in maintaining the exemption outweighed the public interest in disclosing the information.

### **10. CLIMATE RISK ANALYSIS AND TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES – EXEMPT APPENDIX**

#### **RESOLVED 2022/054**

That the contents of the exempt appendix be noted.

### **11. FUND VALUATION AND PERFORMANCE – EXEMPT APPENDIX**

#### **RESOLVED 2022/055**

That the contents of the exempt appendix be noted.

### **12. FUND MANAGERS' PRESENTATIONS**

#### **12a. LGPS Central**

Gordon Ross, Jakril Hoque, Ann-Marie Patterson and Mark Davies provided a report updating the Committee on the activities of LGPS Central.

*11:51am – Councillor Longford left the meeting and did not return*

*12:09pm – Councillor Chapman left the meeting and did not return*

#### **12b. LGIM**

Chris Lyons and Russell Jones provided a report updating the Committee on the activities of LGIM.

*12:25pm – Councillor Garner left the meeting*

*12:55pm – Councillor Garner returned to the meeting*

The meeting concluded at 1:01pm

**CHAIR**



**02 March 2023****Agenda Item: 5****REPORT OF SERVICE DIRECTOR – CUSTOMERS, GOVERNANCE, AND  
EMPLOYEES.****LOCAL GOVERNMENT PENSION SCHEME – UPDATE ON THE PROGRESS  
OF THE MCCLOUD JUDGEMENT ON THE ADMINISTRATION OF THE  
PENSION FUND****Purpose of the Report**

1. The purpose of the report is to update Pension Committee on the Progress of the McCloud Project following the Sargeant Court of Appeal ruling that the Government's 2015 public sector pension reforms unlawfully treated existing public sector employees differently based on members' ages on 1 April 2012.
2. The report also explains the progress so far on the project and requests funding to extend the temporary Project Manager role for a further two years, to ensure the implementation of the remedy of the McCloud judgement due to be proposed by the Government in Autumn 2023.

**Information****Background**

3. When the Local Government Pension Scheme (LGPS) changed from a final salary scheme to a career average pension scheme in April 2014, protections for older scheme members only were introduced.
4. Members of the Judges and Firefighters Pension schemes brought a case to the Court of Appeal. In December 2018, a Court of Appeal ruled that younger members of the Judges' and Firefighters' Pension schemes were discriminated against because the protections did not apply to them.
5. This ruling is often called the McCloud judgement.

**Removing unlawful age discrimination**

6. Following the Court's decision, the L G P S rules need to be changed to automatically provide eligible younger members with protection equal to that provided to older members.

7. In May 2021 an updated written Ministerial Statement on McCloud and the LGPS was released stating that a full Government response on the consultation, will be published later that year.
8. On July 19th, 2021, a Bill to make provision about public service pension schemes, including retrospective provision to rectify unlawful discrimination in the way in which existing schemes were restricted, had its first reading in the House of Lords.
9. Most recently, on 10<sup>th</sup> March 2022, following agreement by both Houses on the text of the Bill, it received Royal Assent. This means the Bill is now an Act of Parliament (law)
10. The government is expected to confirm the changes to be made to the LGPS Regulations by the Autumn of 2023. This will provide LGPS Pension funds with a remedy to apply to members affected by the McCloud Judgement. It is expected that only a small number of scheme members will be affected.

### **Practical Application of the Protection**

11. In the LGPS, the “protection” compares the benefits, payable under the current career average scheme, with the benefits that would have been paid if the Scheme had not changed from a final salary scheme in 2014 and pays the higher. This protection is called the underpin.

### **Data Collection & Validation**

12. To perform the underpin calculation and to apply the McCloud remedy once this is agreed, the Pension fund requires additional data about hours worked and service breaks.
13. This data is needed for all members of the LGPS who meet the qualifying criteria, principally that they were active in the scheme on 31st March 2012 and subsequently had membership of the career average scheme (1st April 2014) without a continuous break in service of more than five years.
14. The collection of this historical data is known, within this context, as the McCloud data collection and validation exercise.
15. The initial data collection phase of the project has been completed and the data captured. The McCloud Project Team has been working towards the validation phase, this has included planning, preparation of data into standardised spreadsheets for the employer to use, pilot testing, employer communications, workshops with scheme employers, and discussing data validations with scheme employers.
16. It is the responsibility for all scheme employers to validate the data requested by the Pension Fund, making any amendments as necessary, and returning the validated information back to the fund.

### **Current Position of the Project – Validation Phase**

17. The current position is as follows:

- Roll out of Data and Validation Phase to approx. 450 employers both active and closed with approximately 45000 lines of member record Data to validate.
- 337 Employers have been contacted and 228 have attended workshops, the files to complete the exercise have been prepared and sent or are ready to send once they have attended a workshop.
- Employer completed files received back (so far): approximately 50 however 1st Qtr. 2023 will be the employers' deadlines.

## **The Next stages of the Project**

18. The next stages of the project are as follows, and the timelines are estimates due to a number of factors and depending on the confirmation of the agreed remedy, and its addition to the LGPS pension Regulations.

- By the end of March 2023 all pension workshops with scheme employers will be completed and most scheme employers will have submitted their data.
- Draft Regulations are expected sometime this year, Autumn, and will be subject to a further consultation, which will include compensation and rates of interest. Statutory guidance will also be issued on the implementation of the remedy.
- Once the Pension Fund has received the data from the scheme employers, the fund will be analysing all the data, and checking for mistakes against the 45,000 lines of data. This work will begin in April.
- June / September 2023 - the Fund will be preparing the data for uploading into the Pension Administration System.
- October 2023 onwards - the fund will be working with the Civica, the Pension Fund software provider, on evaluating the calculations once the Government has provided the remedy and the revised Regulations.

## **Review of Resource Requirements**

19. In terms of estimating the amount of work and resources required, as described in the report the fund is collecting 45000 lines of data which will be reviewed, along with the recalculation of members' benefits and communicating with members and scheme employers.

20. As has previously been reported to the Pensions Committee, this work cannot be completed with the current resources in the Pension Administration Team whilst maintaining the current service level and progressing other statutory projects. Therefore, to complete this work, it was previously agreed to the establishment and recruitment of a temporary project team to focus on this area of work.

21. The Pensions Committee approved the establishment of a temporary Project Manager post for a period of two years, at Band B up to £39,492 a year subject to pay awards, at a total cost of £52,860 per annum.

22. The Pension Administration Team are seeking funding from Pensions Committee to extend this post for a further two years given the expectation that the project will extend to April 2025 and the work that is required to manage the scheme data, and the implementation of the remedy once agreed by the Government. The current post holder will also be managing other national projects that the Fund is required to undertake, including pension dashboards, monthly returns, along with other Fund activity.

### **Other Options Considered**

23. The Pension Fund is following the Scheme Advisory Board, and the Local Government Association (LGA) advice, engaging with the Scheme Actuary to ensure that Nottinghamshire is following the best advice.
24. The Pension Fund has a legal requirement to ensure that the McCloud judgment is correctly applied to all eligible pensioners and members of the Nottinghamshire Pension Fund.
25. The McCloud project work could be absorbed into the existing work of the administration team however, this is not considered to be a feasible option. It would have very significant implications and disruption for the delivery of the current business as usual, as well as the legal obligation to deliver the McCloud project.

### **Reasons for Recommendations**

26. This is a significant project for the Pension Fund which requires project management and additional resources to ensure that the fund fulfils the statutory requirements of the McCloud judgement.
27. Advice and support from the Scheme Actuary and their extensive knowledge and understanding of the LGPS Regulations and the McCloud judgement will provide the Nottinghamshire Pension Fund McCloud project with a quality assurance mechanism.

### **Statutory and Policy Implications**

28. This report has been compiled after consideration of implications in respect of crime and disorder, data protection and information governance, finance, human resources, human rights, the NHS Constitution (public health services), the public sector equality duty, safeguarding of children and adults at risk, service users, smarter working, sustainability, and the environment, and where such implications are material, they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

### **Data Protection and Information Governance**

29. The project, by its very nature, involves reconciliation, sharing and processing of personal and sensitive data. This is covered by existing arrangements and agreements with scheme employers and scheme members.

### **Financial Implications**

30. The costs of extending the Project Manager post are estimated at £52,860 per annum and these costs will be charged to the pension fund.

## **RECOMMENDATIONS**

It is recommended that the Nottinghamshire Pension Fund Committee:

- 1) Notes the progress and implications of the McCloud case to date.
- 2) Agrees to extend the funding for the Temporary Project Manager role until 31 March 2025.
- 3) Agrees to receive further update reports as the project progresses and on the implementation of the national proposals.

**Marjorie Toward**

**Service Director – Customers, Governance and Employees**

**For any enquiries about this report please contact:**

Jonathan Clewes, Pension Manager on 0115 9773434 or [Jon.Clewes@nottsc.gov.uk](mailto:Jon.Clewes@nottsc.gov.uk)

### **Constitutional Comments (KK 20.02.23)**

31. The proposals in this report are within the remit of the Nottinghamshire Pension Committee

### **Financial Comments (KP 16.02.23)**

32. The financial implications are set out in the report with any costs a legitimate charge to the pension fund.

### **Background Papers and Published Documents**

Except for previously published documents, which will be available elsewhere, the documents listed here will be available for inspection in accordance with Section 100D of the Local Government Act 1972.

### **Electoral Division(s) and Member(s) Affected**

- All



**REPORT OF SERVICE DIRECTOR – FINANCE, INFRASTRUCTURE & IMPROVEMENT****STRATEGIC ASSET ALLOCATION WORKING PARTY****Purpose of the Report**

1. The Pension Fund Working Party meets twice a year or additionally where circumstances require and is open to all Pension Committee Members to attend. The purpose of the Working Party is to discuss key issues in more detail and to make recommendations to Pension Fund Committee. This report sets out details of the items discussed at the most recent meeting on 12 January 2023 and makes recommendations as follows:-
  - 1) Amend the wording of the Fund's Investment Beliefs to those shown in Appendix C. Reflect the new wording in the Investment Strategy Statement at its next review.
  - 2) Include Index Linked Gilts as an investment option within the Inflation allocation currently met by the Aegon Sustainable Diversified Growth Fund.
  - 3) Rename the current Gilts mandate Government Bonds. Consider the extension of the universe to include overseas Government Bonds.
  - 4) Formalise the Strategic Asset Allocation credit category subclass allocations as shown in Table 1.

**Information and Advice**

2. The Working Party met on 12 January 2023. The agenda and attendees are listed in Appendices A and B, and details of the discussions and recommendations for each item are set out below.

**Review of Investment Beliefs**

3. The Working Party considered a report from William Bourne, independent adviser to the fund setting out the Fund's Investment Beliefs, which were last reviewed in detail in 2018. The wording has been reviewed by LGPS Central to ensure that the Nottinghamshire Pension Fund investment beliefs remain consistent with those of the Pool.

**Recommendation 1. Amend the wording of the Fund's Investment Beliefs to those shown in Appendix C. Reflect the new wording in the Investment Strategy Statement at its next review.**

4. The Fund's Investment Beliefs were considered and some amendments suggested to the wording by Members and officers. These are set out for approval in Appendix C.

## Strategic Asset Allocation

5. The Working Party considered a report from William Bourne, independent adviser to the fund. The report considered the market environment, the preliminary results of the triennial valuation and the financial and climate risks in the Fund.
6. The Fund reviews its strategic asset allocation (SAA) annually to ensure it is appropriate. The report reviewed the Fund's SAA in the light of the current economic outlook. The option of derisking the current strategic asset allocation was considered alongside specific proposals for inflation and credit. No changes are currently proposed to the SAA, but the Working Party agreed to make the following recommendations to committee.

### **Recommendation 2. Include Index Linked Gilts as an investment option within the Inflation allocation currently met by the Aegon Sustainable Diversified Growth Fund.**

7. Index Linked Gilts are a natural match for the Fund's liabilities but have over the last ten years traded with a negative real yield. If this improves it is proposed that a new allocation to Index Linked Gilts should be established through a LGPS Central Mandate. This would provide lower risk and a closer inflation hedge than the Aegon Sustainable Diversified Growth Fund is able to deliver.

### **Recommendation 3. Rename the current Gilts mandate Government Bonds. Consider the extension of the universe to include overseas Government Bonds.**

8. The Fund has no allocation to overseas government bonds. This decision should be reviewed to potentially provide further diversification and reflect the new economic environment. A report will be brought to Committee at a future point following discussions with the Pool.

### **Recommendation 4. Formalise the SAA credit category subclass allocations as shown in Table 1.**

Table 1

<b>Credit subcategory</b>	<b>% Income</b>	<b>% SAA</b>
<b>Investment Grade – Multi Asset Credit</b>	<b>14.0%</b>	<b>1.4%</b>
<b>Investment Grade – Emerging Market Bonds</b>	<b>3.5%</b>	<b>0.4%</b>
<b>Private Credit</b>	<b>8.8%</b>	<b>0.9%</b>
<b>Credit Secondary Funds</b>	<b>8.8%</b>	<b>0.9%</b>

9. The Credit Asset class is split 65% Investment Grade and 35% Private assets. Within Investment Grade credit 80% will be allocated to Multi Asset Credit and 20% to Emerging Market Bonds. This formalises the current split of LGPS Central investments held in this category.
10. In the Private credit allocation this is split between Private Credit (currently the Fund's investment in the Dorchester Credit Opportunities Fund) and Credit Secondaries. Although the latter is a new category, the Fund does currently hold a Credit Secondaries fund within the Private Equity allocation. It is proposed that the Dorchester Credit Secondaries fund is moved to the Credit category.

## Climate Risk Considerations

11. In accordance with the LGPSC Climate Risk Report's recommendations climate change considerations have been integrated into the advice and recommendations in the report.
12. LGPS Central provided an updated scenario analysis to the Fund in 2022. LGPSC's reports demonstrate the Fund is managed in a way which mitigates climate risk and is consistent with a pathway to net zero.

## Summary

13. The following table shows the current and proposed high level strategic asset allocations which are unchanged.

Table 2

Outcome	Asset Classes	30/09/2022 portfolio %	Long term SAA %	Range %
Growth	Listed and Private equity	59.8	60.0	50-70
Inflation protection	Property, Infrastructure, Index Linked Aegon DGF	26.4	28.0	15-30
Income	Fixed Income	9.6	10.0	5-15
Liquidity	Cash, Aegon short term bonds	4.2	2.0	0-10

## GMP (Guaranteed Minimum Pension) reconciliation

14. The Working Party received a presentation from Jon Clewes, Pension Manager setting out some of the issues in the ongoing reconciliation of GMP data pending a future report to committee.

## Climate risk training

15. Climate risk training was provided by LGPS Central. The topic of this year's training was Green Bonds following a request from Members. The nature of the market and lack of formal regulation was considered and the risk of greenwashing highlighted. The extent of green bond investment within LGPS Central's current Corporate Bond, Emerging Market Debt and Multi Asset Credit funds was identified.

## Statutory and Policy Implications

16. This report has been compiled after consideration of implications in respect of finance, the public sector equality duty, human resources, crime and disorder, human rights, the safeguarding of children, sustainability and the environment and those using the service and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

## RECOMMENDATIONS

It is recommended that Committee

- 1) Amend the wording of the Fund's Investment Beliefs to those shown in Appendix C. Reflect the new wording in the Investment Strategy Statement at its next review.
- 2) Include Index Linked Gilts as an investment option within the Inflation allocation currently met by the Aegon Sustainable Diversified Growth Fund.
- 3) Rename the current Gilts mandate Government Bonds. Consider the extension of the universe to include overseas Government Bonds.
- 4) Formalise the SAA credit category subclass allocations as shown in Table 1.

**Nigel Stevenson**

**Service Director for Finance, Infrastructure & Improvement and Section 151 Officer**

**For any enquiries about this report please contact: Tamsin Rabbitts**

### **Constitutional Comments (KK 07/02/2023)**

17. The proposals in this report are within the remit of the Nottinghamshire Pension Fund Committee.

### **Financial Comments (TMR 07/02/2023)**

18. The financial implications are noted in the report.

### **Background Papers and Published Documents**

Except for previously published documents, which will be available elsewhere, the documents listed here will be available for inspection in accordance with Section 100D of the Local Government Act 1972.

- None

# MEETING AGENDA



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**Meeting title:** PENSION FUND WORKING PARTY MEETING  
**Date and time:** Thursday 12<sup>th</sup> January 2023, ~12.30 p.m. (to follow AGM)  
**Location:** Committee Room B

- |   |         |
|---|---------|
| 1. Review of Investment Beliefs – William Bourne          | 15 mins |
| 2. Strategic Asset allocation discussion – William Bourne | 60 mins |
| 3. GMP reconciliation – Jon Clewes                        | 45 mins |
| 4. Green Bonds Climate Related RI training – LGPS Central | 30 mins |



**NOTTINGHAMSHIRE PENSION FUND COMMITTEE**  
**WORKING PARTY ATTENDANCE SHEET**

**COMMITTEE ROOM B**

**MEETING HELD ON: THURSDAY 12 JANUARY 2023 AT:12:30**

**MEETING CLOSED AT: 15:15**

**COUNTY COUNCILLORS**

<b><u>Name</u></b>	<b><u>Signature</u></b>	<b><u>Name</u></b>	<b><u>Signature</u></b>
Eric Kerry (Chairman)	Attended	Mike Introna (Vice-Chairman)	Attended
Andre Camilleri	Attended	Chris Barnfather	Apologies
Sheila Place	Attended	Bethan Eddy	Attended
John Clarke	Attended	Lee Waters	Attended
Stephen Garner	Attended	Francis Purdue-Horan	Attended
Tom Smith	Attended		

**CITY COUNCILLORS**

<b><u>Name</u></b>	<b><u>Signature</u></b>	<b><u>Name</u></b>	<b><u>Signature</u></b>
Graham Chapman	Attended	Sally Longford	Apologies
Zafran Khan			

**DISTRICT COUNCIL REPRESENTATIVES**

<b><u>Name</u></b>	<b><u>Signature</u></b>	<b><u>Name</u></b>	<b><u>Signature</u></b>
Councillor David Lloyd – Newark & Sherwood District Council		Councillor Gordon Moore – Rushcliffe Borough Council	

**TRADE UNIONS**

<b><u>Name</u></b>	<b><u>Signature</u></b>	<b><u>Name</u></b>	<b><u>Signature</u></b>
Mr A Woodward	Apologies	Mr C King	Attended

**SCHEDULED BODIES**

<b><u>Name</u></b>	<b><u>Signature</u></b>	<b><u>Name</u></b>	<b><u>Signature</u></b>
Sue Reader	Apologies		

**PENSIONERS REPS**

<b><u>Name</u></b>	<b><u>Signature</u></b>	<b><u>Name</u></b>	<b><u>Signature</u></b>

**OTHER COUNCILLORS**

<b><u>Name (Block Caps)</u></b>	<b><u>Signature</u></b>	<b><u>Name (Block Caps)</u></b>	<b><u>Signature</u></b>

**OFFICERS**

<b><u>Name (Block Caps)</u></b>	<b><u>Signature</u></b>	<b><u>Name (Block Caps)</u></b>	<b><u>Signature</u></b>
Keith Palframan	Attended	Tamsin Rabbitts	Attended
Jon Clewes	Attended	Sarah Stevenson	Attended
Jo Toomey	Attended	Ashley Booker	Attended

**OTHER ATTENDEES**

<b><u>Name (Block Caps)</u></b>	<b><u>Signature</u></b>	<b><u>Name (Block Caps)</u></b>	<b><u>Signature</u></b>
William Bourne	Attended	Patrick O'Hara LGPS Central	Attended
Gordon Ross LGPS Central	Attended	Basyah Salleh LGPS Central	Attended

## Statement of Investment Beliefs

1. The Fund's investment beliefs outline key aspects of how it sets and manages its exposures to investment risk. They are as follows:

### Financial market beliefs

- Return is related to risk but taking calculated risks does not guarantee returns. The actual outcome may be higher or lower than that expected.
- The Fund has a long-term investment horizon and is able to invest in volatile and/or illiquid investment classes in order to generate higher returns.
- Markets are dynamic and are not always efficient, and therefore offer opportunities for investors.
- Diversification is a key technique available to institutional investors for improving risk-adjusted returns.

### Investment strategy/process beliefs

- Return and risk should be considered relative to the Fund's liabilities, funding position and contribution strategy. Risk should be viewed both qualitatively and quantitatively. Particular focus should be given to the risk of loss and also to the nature and likelihood of extreme events so that the Fund is not a forced seller of assets.
- Strategic asset allocation is a key determinant of risk and return, typically more important than manager or stock selection.
- Equities are expected to generate superior long-term returns relative to Government bonds.
- Alternative asset class investments are designed to further diversify the portfolio and improve its risk-return characteristics.
- Active management can add value over time, but it is not guaranteed and can be hard to access. Where generating 'alpha' is particularly difficult, passive management is preferred.
- Operational, counterparty and reputational risk need assessment and management, in addition to investment risk.
- Managing fees and costs matter, especially in low-return environments. Fee arrangements with our fund managers – as well as the remuneration policies of investee companies – should be aligned with the Fund's long-term interests.
- The Fund will prefer to invest through its pool, LGPS Central, where they are able to offer a vehicle which offers similar or better risk-adjusted return to what is available elsewhere

Organisational beliefs

- Clear investment objectives are essential.
- Effective governance and decision-making structures that promote decisiveness, efficiency and accountability are effective and add value to the Fund.
- The Nottinghamshire Pension Fund Committee's fiduciary duty is to the members of the Pension Fund and their employers. While they are not trustees, they have trustee-like responsibilities.

Responsible investment beliefs

- Responsible investment is supportive of risk-adjusted returns particularly over the long term, across all asset classes. As a long-term investor, the Fund should seek to invest in assets with sustainable business models across all asset classes.
- Responsible investment should be integrated into the investment processes of the Fund, the Pool, and underlying investment managers.
- A strategy of engagement rather than exclusion is more compatible with fiduciary duty and is more supportive of responsible investment because the opportunity to influence companies through stewardship is waived in a divestment approach. This notwithstanding, our active managers may choose to sell holdings in individual companies whose business models they do not believe to be sustainable.
- Investee companies and asset managers with robust governance structures should be better positioned to handle the effects of shocks and stresses of future events. There is clear evidence showing that decision-making and performance are improved when company boards and investment teams are composed of diverse individuals
- There is risk but also financial opportunity in holding and influencing companies which have weak governance of financially material ESG issues but the potential to improve. Opportunities can be captured so long as decisions are based on sufficient evidence and they are aligned with the Fund's objectives and strategy. The Fund welcomes the global environmental, social and economic benefits that such an approach can deliver.
- Financial markets are likely to be materially impacted by climate change and by the response of climate policymakers. Responsible investors should proactively manage this risk factor through integrated analysis and stewardship activities, using partnerships of like-minded investors where feasible.

**REPORT OF SERVICE DIRECTOR – FINANCE, INFRASTRUCTURE &  
IMPROVEMENT****PENSION FUND TREASURY MANAGEMENT STRATEGY STATEMENT  
2023/24****Purpose of the Report**

1. The Pension Fund Treasury Management Strategy covers the management of the Fund's cash balances, which are maintained to ensure that liquidity is maintained in between other cash inflows (eg. dividends on long-term investments) and outflows (eg. monthly pension payroll) experienced by the Fund.
2. Responsibility for the Treasury Management Strategy of the Pension Fund was delegated to the Pension Fund Committee at Full Council in February 2020. The purpose of this was to improve the clarity of the governance of the Pension Fund Committee and enable the Strategy, reviewed annually, to be amended more quickly in response to changes to the Fund's Investment Strategy or to any long-term changes in the money markets. This report lays out the Strategy to be approved for 2023/24.
3. In addition to an annual Strategy Report, the Pension Fund Committee will receive a Treasury Management Mid-year report in the autumn and a year-end Treasury Management report after accounts closure.

**Information**

4. Nottinghamshire County Council, in line with the CIPFA Treasury Management in the Public Services Code (2021 edition), defines treasury management activities as:

*The management of the organisation's borrowing, investments and cash flows, including its banking, money market and capital market transactions, the effective control of the risks associated with those activities, and the pursuit of optimum performance consistent with those risks.*

5. The Council is an administering authority in the Local Government Pension Scheme and is required, under the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, to invest any fund money that is not needed immediately to make payments.
6. Pension Fund cash is separately identified from the Council's cash. Regarding cash investments and cashflows relating to the Pension Fund, the Council has delegated

responsibility for identifying, monitoring and controlling such risk to the Pension Fund Committee. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the Pension Fund.

7. The Pension Fund Committee acknowledges that effective treasury management will provide support towards achieving its objectives. It is therefore committed to the principles of achieving value for money in treasury management within the context of effective risk management.
8. The Pension Fund Committee delegates responsibility for the implementation, scrutiny and monitoring of its treasury management policies and practices to the *Treasury Management Group*, comprising:
  - Service Director (Finance, Infrastructure & Improvement)
  - Group Manager (Financial Services)
  - Senior Accountant (Financial Strategy & Accounting)
  - Senior Accountant (Pensions & Treasury Management)
  - Investments Officer
9. The Pension Fund Treasury Management Strategy will be implemented through the following Treasury Management Practices (TMPs). The responsible officer for the execution and administration of treasury management decisions is the Senior Accountant (Pensions & Treasury Management), who will act in accordance with the strategy statement and TMPs.

#### **TMP1 - Risk management**

10. The Senior Accountant (Pensions & Treasury Management) will design, implement and monitor all arrangements for the identification, management and control of treasury management risk. Reports will be made on these arrangements in accordance with the procedures set out in *TMP6 Reporting requirements and management information arrangements*. The arrangements will seek to cover each of the following risks.

#### **Credit and counterparty risk**

11. This is the risk of failure by a counterparty to meet its contractual obligations to the Pension Fund, particularly because of the counterparty's diminished creditworthiness, and the resulting detrimental effect on the Pension Fund's resources.
12. The Pension Fund regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that its counterparties and lending limits reflect a prudent attitude towards organisations with which monies may be deposited, and will limit its investment activities to the instruments, methods and techniques referred to in the following paragraphs.
13. The Local Government Act 2003 gives a local authority power to invest for any purpose relevant to its functions or for the purposes of the prudent management of its financial affairs. In exercising this power, the local authority must have regard to guidance issued by the Secretary of State.
14. The guidance classifies investments between "specified" and "non-specified". Specified investments are those offering high security and high liquidity. All such investments should be in sterling and with a maturity of no more than a year. Such short-term investments made with

the UK Government or a local authority will automatically count as specified investments. In addition, short-term sterling investments with bodies or investment schemes of "high credit quality" will count as specified investments. The Fund's policy is to invest cash surpluses prudently, giving priority to security and liquidity rather than yield and investing in sterling instruments only. The majority of these will be specified investments.

15. The Pension Fund will operate an approved list of counterparties for lending. The approved lending list will comprise institutions with high credit ratings based on minimum ratings from at least 2 rating agencies together with a Fitch support rating for longer term lending. The list reflects a prudent attitude to lending and uses a combination of ratings issued by the 3 main ratings agencies: Fitch, Moody's and Standard & Poor's. Banks will be assessed for inclusion on the basis of long-term, short-term and support ratings; money market funds (MMFs) on the basis of MMF ratings.
16. Short-term ratings assess the capacity of an entity to meet financial obligations with maturity of up to and including 12 months and are based on the short-term vulnerability to default. The long-term ratings cover a period in excess of 12 months. They are useful as a key indicator as they reflect the ability of the financial institution to obtain funds at reasonable cost to maintain their own liquidity.
17. MMFs are mutual funds that invest in cash and short-term money market instruments such as government bonds and commercial paper. They allow investors to participate in a more diverse portfolio than direct investment by spreading capital across a variety of institutions. The highest AAA rating reflects an extremely strong capacity to achieve the 'investment objective of preserving principal and providing shareholder liquidity through limiting credit, market, and liquidity risk'.
18. The Pension Fund will monitor ratings from the main agencies along with general market data. The Fund will also monitor developments in the financial markets including policy announcements by the Government, Bank of England, regulatory bodies and other international bodies. It will use this information to determine if any changes are required to the above methodology.
19. The approved list will include institutions that meet the following criteria from at least 2 rating agencies:

	<b>Long Term</b>	<b>Short Term</b>	<b>Sterling MMFs</b>
Fitch	A-	F1	AAAmmf
Moody's	A3	P-1	Aaamf
Standard & Poors	A-	A-1	AAAm

Sovereign Rating	AA
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Within the approved list the following minimum criteria will apply, dependent on the terms of the deposit, from at least 2 ratings agencies:

	Fitch Long term	Fitch Support	Moodys Long term	S&P Long term
Instant access	A-	-	A3	A-
Up to 3 months	A-	-	A3	A-
Up to 364 days	AA-	-	AA3	AA-
365 days and over	A	1 or 2	A2	A

20. All investments (up to 365 days duration) with the counterparties in the approved list are considered specified investments.
21. Exceptions (to be determined by the *Treasury Management Group*) to rating criteria may be made in respect of the following:
- 1) UK government
  - 2) UK local authorities
  - 3) The Council's bank (currently Barclays Bank)
  - 4) the Pension Fund's custodian (currently State Street)
22. The lending list will be approved by the *Treasury Management Group* and monitored by the Senior Accountant (Pensions & Treasury Management) in the light of rating changes and market conditions. Individual institutions or countries may be suspended from the list if felt appropriate. The *Treasury Management Group* may add or remove organisations from the approved list subject to maintaining consistency with the approved criteria.
23. The maximum amount to be lent by the Pension Fund to any organisation on the approved list is subject to individual institution limits of £20m. A separate limit of £40m applies to investments in Money Market Funds and the Fund's custodian bank. Only two institutions within the same group may be used at any one time. The *Treasury Management Group* may increase the limit for specific institutions by £10 million for investments in call accounts and MMFs with same day liquidity.
24. Investments with the UK government will have no upper limit but in practice limits will be dependent on the liquidity of those investments and may fall within the definition of specified or non-specified investments. Amounts invested in non-specified investments will be limited to £20 million or 15% of the total invested at the time of the investment, whichever is the higher.
25. The Pension Fund's current account, through which all treasury management activity operates, is held at Barclays Bank.
26. As a result of the second Markets in Financial Instruments Directive (MiFID II), all LGPS pension funds have been treated as 'retail' clients by investment counterparties by default unless they have chosen to opt up to 'professional' client status. The Pension Fund has opted for this with all of its counterparties where required.

## Liquidity risk

27. Liquidity risk is the risk that cash will not be available when it is needed, that ineffective management of liquidity creates additional costs, and that the Pension Fund's objectives will

be thereby compromised. This is of especial concern regarding the Pension Fund as most of its cash is either allocated or committed to individual investment managers and may be called by them at short notice.

28. The Pension Fund will ensure it has adequate though not excessive cash resources to always enable it to have the level of funds available to it which are necessary for the achievement of its business/service objectives and its investment strategy.
29. Summarised cash flow forecasts will be provided on a quarterly basis to the *Treasury Management Group*. Daily cash flow forecasts will be maintained by the Loans Officer. These forecasts will be used as the basis for ensuring adequate cash resources are available in order to support the payment of pensions, the cash allocations and commitments to investment managers, and other such outflows.
30. The Senior Accountant (Pensions & Treasury Management) or Investments Officer may approve fixed term investments up to 365 days. Longer periods require permission from either the Service Director (Finance & Procurement), the Group Manager (Financial Strategy & Compliance) or the Group Manager (Financial Management) and must comply with the relevant treasury management limits.

#### **Exchange rate risk**

31. This is the risk that fluctuations in foreign exchange rates create an unexpected burden on the Fund's finances, against which it has failed to protect itself adequately.
32. The Fund will manage its exposure to fluctuations in exchange rates so as to minimise any detrimental impact on its income levels. Treasury Management exposure will be minimal as the Fund's cash investments are all in sterling.

#### **Legal and regulatory risk**

33. The risk that the Pension Fund, or a counterparty with which it is dealing in its treasury management activities, fails to act in accordance with its legal powers or regulatory requirements, and that the Fund suffers losses accordingly.
34. The Pension Fund Committee will ensure that all of the Pension Fund's treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counterparty policy under *TMP1(1) credit and counterparty risk management*, it will ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions they may affect with the Fund, particularly with regard to duty of care and fees charged.
35. The Pension Fund Committee recognises that future legislative or regulatory changes may impact on its treasury management activities and, so far as it is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the Fund.

#### **Fraud, error and corruption, and contingency management**

36. This is the risk that the Pension Fund fails to identify the circumstances in which it may be exposed to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings, and fails to employ suitable systems and procedures and maintain effective contingency management arrangements to these ends. It includes the area of risk commonly referred to as operational risk.
37. The Fund will ensure that it has identified the circumstances which may expose it to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings. Accordingly, it will employ suitable systems and procedures, and will maintain effective contingency management arrangements, to these ends.

### **Market risk**

38. The risk that, through adverse market fluctuations in the value of the principal sums the Fund invests, its stated treasury management policies and objectives are compromised, against which effects it has failed to protect itself adequately.
39. The Fund will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums it invests and will accordingly seek to protect itself from the effects of such fluctuations. Decisions on investment in tradeable securities, which risk loss of capital due to market fluctuations, will only be authorised by the *Treasury Management Group*.

### **TMP2 Performance measurement**

40. Cash investment returns will be benchmarked against the adjusted average Sterling Overnight Index Average (SONIA) rate each year.

### **TMP3 Decision-making and analysis**

41. The Fund will maintain full records of its treasury management decisions, and of the processes and practices applied in reaching those decisions, both for the purposes of learning from the past, and for demonstrating that reasonable steps were taken to ensure that all issues relevant to those decisions were considered at the time.
42. Treasury management processes and practices are documented. Full records are maintained of all treasury management decisions. Where appropriate, decisions are reported to the *Treasury Management Group*.

### **TMP4 Approved instruments, methods and techniques**

43. The Fund will undertake its treasury management activities within the limits and parameters defined in *TMP1 Risk management*. For investing purposes, the Fund may use the following financial instruments:
- a) call or notice accounts
  - b) fixed term deposits
  - c) callable deposits
  - d) structured deposits
  - e) certificates of deposits
  - f) money market funds

- g) UK Treasury Bills
- h) UK government bonds

44. For money market funds the Fund will limit their use to those with minimum total assets of £5 billion. For surplus cash invested in UK Treasury bills and UK government bonds the objective will be to hold until maturity, but their tradeability gives the flexibility to realize these instruments earlier for liquidity purposes or in the event of significant capital gains. The Fund will use forward dealing for investing where market conditions indicate this approach to offer better value for money.

## **TMP5 Organisation, clarity and segregation of responsibilities and dealing arrangements**

45. The Pension Fund Committee considers it essential, for the purposes of the effective control and monitoring of its treasury management activities, for the reduction of the risk of fraud or error, and for the pursuit of optimum performance, that these activities are structured and managed in a fully integrated manner, and that there is always clarity of treasury management responsibility.

46. The principle on which this will be based is a clear distinction between those charged with setting treasury management policies and those charged with implementing and controlling these policies, particularly regarding the execution and transmission of funds, the recording and administering of treasury management decisions, and the audit and review of the treasury management function.

47. If the Committee intends, because of lack of resources or other circumstances, to depart from these principles, the Senior Accountant (Pensions & Treasury Management) will ensure that the reasons are properly reported in accordance with *TMP6 Reporting requirements and management information arrangements*, and the implications properly considered and evaluated.

48. The Senior Accountant (Pensions & Treasury Management) will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management, and the arrangements for absence cover. The Senior Accountant (Pensions & Treasury Management) will also always ensure that those engaged in treasury management shall follow the policies and procedures set out.

49. The Senior Accountant (Pensions & Treasury Management) will ensure that there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds.

50. The current responsibilities are outlined below.

- Treasury management policies and practices are set by the Pension Fund Committee.
- Responsibility for the implementation, scrutiny and regular monitoring of the treasury management policies and practices is delegated to the *Treasury Management Group*.
- The responsible officer for the execution and administration of treasury management decisions is the Senior Accountant (Pensions & Treasury Management), who will act within the parameters set by the Treasury Management Policy Statement and TMPs and decisions of the *Treasury Management Group*. The Investments Officer will act

as deputy to the Senior Accountant (Pensions & Treasury Management) in his or her absence.

51. The current procedures are outlined below.

1. Daily cash flow forecasts will be maintained by the Loans Officer. Annual cash flow forecasts will be provided to the *Treasury Management Group* on a quarterly basis.
2. The daily procedures for cash flow monitoring, placing deals, transmission of funds and documentation are set out in the Treasury Management Procedure Manual. These are usually carried out by the Loans Officer with absences covered by another officer under the responsibility of the Senior Accountant (Pensions & Treasury Management).
3. The officer dealing on the money market each day must prepare a cash flow forecast for that day based on the most up-to-date information available and this must be checked by the Senior Accountant (Pensions & Treasury Management), or another officer under the responsibility of the Senior Accountant (Pensions & Treasury Management), before that day's deals are carried out. Before conducting a deal, the officer will confirm that the credit ratings of the counterparty are in line with the approved policy.
4. Deals must be within the limits set out in *TMP1 Risk management*. Dealing staff must be aware of the principles set out in the Bank of England's UK Money Markets Code 2021, which are 'intended to promote an open, fair, effective and transparent market'. Documentation must be kept in accordance with the Treasury Management Procedure Manual.
5. The transfer of funds will normally be actioned by CHAPS transfer through the banking system operated by the Fund's bank (currently Barclays).

52. Individual deal limits specified in *TMP1 Risk management* apply to all staff placing deals. Any lending for periods greater than 365 days may only be actioned on the authority of the Senior Accountant (Pensions & Treasury Management) and either the Service Director (Finance, Infrastructure and Improvement) or the Group Manager (Financial Services). Money may only be lent to institutions or funds on the *Approved List*.

## **TMP6 Reporting requirements and management information arrangements**

53. The Service Director (Finance, Infrastructure and Improvement) will ensure that regular reports are prepared and considered on the implementation of the Pension Fund's treasury management policies.

54. The *Treasury Management Group* will receive regular monitoring reports on treasury management activities and risks and on compliance with and suggested revisions to policy. Members of the *Treasury Management Group* will be informed of any breach of the principles contained in TMP5.

## **TMP7 Accounting and audit arrangements**

55. The Pension Fund accounts for its treasury management activities, for decisions made and transactions executed, in accordance with appropriate accounting practices and standards, and with statutory and regulatory requirements in force for the time being.

56. Systems and procedures are subject to both internal and external audit and all necessary information and documentation shall be provided on request.

#### **TMP8 Cash and cash flow management**

57. Unless statutory or regulatory requirements demand otherwise, all monies in the Pension Fund will be under the control of the Service Director (Finance, Infrastructure & Improvement), and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis, and the Service Director (Finance, Infrastructure & Improvement) will ensure that these are adequate for the purposes of monitoring compliance with *TMP1(2) liquidity risk management*.

58. As outlined in TMP5, daily cash flow forecasts are to be prepared in accordance with the Investments Procedure Manual, and summarised weekly and annual activity reports are regularly provided to the *Treasury Management Group*.

#### **TMP9 Money laundering**

59. The Pension Fund Committee is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, it will maintain procedures for verifying and recording the identity of counterparties and reporting suspicions and will ensure that staff involved in this are properly trained.

60. All treasury management activity with banks other than the Fund's own bank is actioned through CHAPS transfers to/from nominated accounts. Suspicions that a third party is attempting to involve the Pension Fund in money laundering will be reported to the Service Director (Finance, Infrastructure & Improvement).

#### **TMP10 Training and qualifications**

61. The Pension Fund Committee recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills.

62. The person specifications for the Senior Accountant (Pensions & Treasury Management) and the Investments Officer require a UK chartered accountancy qualification and other members of the treasury team have the option to be supported to attain professional qualifications from the Association of Accounting Technicians, the Chartered Institute of Public Finance & Accountancy, or the Association of Corporate Treasurers (ACT). The members of the *Treasury Management Group* are also required to be chartered accountants or ACT qualified.

63. Professional qualifications will be supplemented by relevant training courses, attendance at seminars and conferences and access to CIPFA's Treasury Management Network and Technical Information Service for all team members. The Senior Accountant (Pensions & Treasury Management) will recommend and implement the necessary arrangements. Requests and suggestions for training may be discussed at any time with the Senior Accountant (Pensions & Treasury Management) and also feature as part of the personal development review process.

64. The *Treasury Management Group* will ensure that Committee members tasked with treasury management responsibilities have access to training relevant to their needs and those responsibilities. Those charged with governance recognise their individual responsibility to ensure that they have the necessary skills to undertake their role effectively.

#### **TMP11 Use of external service providers**

65. The Pension Fund Committee recognises that ultimate responsibility for treasury management decisions cannot be outsourced. It also recognises that there may occasionally be potential value in employing external providers of treasury management services, in order to acquire access to specialist skills and resources. However, it does not currently employ the services of any specialist treasury management advisers.

66. In the employment of such service providers, the Committee will ensure it does so for reasons which have been submitted to a full evaluation of the costs and benefits. It will also ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to regular review. It will also ensure, where feasible and necessary, that a spread of service providers is used, to avoid over-reliance on one or a small number of companies. Where services are subject to formal tender or re-tender arrangements, legislative requirements will be observed. The monitoring of such arrangements rests with the responsible officer.

67. The Fund makes use of broking companies to act as intermediaries in lending activity although it will also carry out this activity directly with counterparties when opportunities arise and when settlement details can be adequately verified.

#### **TMP12 Corporate governance**

68. The Pension Fund Committee is committed to the pursuit of proper corporate governance throughout its businesses and services, and to establishing the principles and practices by which this can be achieved. Accordingly, the treasury management function and its activities will be undertaken with openness and transparency, honesty, integrity, and accountability.

69. As part of the Council, the Committee has adopted and implemented the key provisions of the CIPFA Treasury Management in the Public Services Code (2021 edition) and reports are made in accordance with the approved policy. The Council's constitution includes schemes of delegation covering treasury management activities.

70. These measures are considered vital to the achievement of proper corporate governance in treasury management, and the responsible officer will monitor and, if necessary, report upon the effectiveness of these arrangements.

#### **Statutory and Policy Implications**

71. This report has been compiled after consideration of implications in respect of finance, the public sector equality duty, human resources, crime and disorder, human rights, the safeguarding of children, sustainability and the environment and those using the service and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

## **RECOMMENDATION/S**

1. That Pension Fund Committee members approve the Strategy Statement as set out in the report.

**Nigel Stevenson**

**Service Director for Finance, Infrastructure & Improvement and Section 151 Officer**

**For any enquiries about this report please contact: Ciaran Guilfoyle**

### **Constitutional Comments (KK 07/02/2023)**

72. The proposal in this report is within the remit of the Nottinghamshire Pension Fund Committee.

### **Financial Comments (TMR 07/02/2023)**

73. There are no financial implications arising directly from this report.

### **Background Papers and Published Documents**

Except for previously published documents, which will be available elsewhere, the documents listed here will be available for inspection in accordance with Section 100D of the Local Government Act 1972.

- CIPFA Treasury Management in the Public Services Code (2021 edition)
- [The UK Money Markets Code 2021](#)



**2 March 2023****Agenda Item: 8****REPORT OF SERVICE DIRECTOR – FINANCE, INFRASTRUCTURE &  
IMPROVEMENT****CONFERENCES AND TRAINING****Purpose of the Report**

1. To seek approval for attendance at conferences and training in 2023/24.

**Information and Advice**

2. The Fund is committed to ensuring those charged with decision-making and financial management have effective knowledge and skills and this is achieved through attendance at key conferences and the provision of specific training and information for Members. The Good Governance in the LGPS report has recommended new Statutory Guidance to contain an enhanced requirement for key individuals within the LGPS, including Pension Committee Members to have knowledge and understanding to carry out their roles effectively and this may formalise training requirements in the near future.
3. Assets are continuing to be transferred to LGPS Central, which will take place on a phased basis over a number of years. After transition asset allocation decisions will remain with the fund so it will be essential that Committee Members continue to receive appropriate up to date information on investment opportunities to enable them to hold LGPS Central to account and to ensure the funds allocation decisions represent the best option for the fund.
4. It is proposed to continue to attend key pension conferences and to ensure training is available.
5. The LGA's LGPS Fundamentals course is well regarded and it is proposed to continue to offer this course to new members of the Committees or those wishing to refresh existing knowledge.
6. In addition to the specific events listed below members are encouraged to attend the free trainings and briefings offered by industry bodies at no charge, and any other internal training provided during the year covering both general pensions matters and any changes in legislation which impact on the work of the Committee. Members are encouraged to inform the Senior Accountant – Pensions when they attend training sessions so the training record can be updated.

7. Approval is sought for attendance at the following conferences and training in 2023/24.

<b>Conference</b>	<b>Location</b>	<b>Date</b>	<b>Attendance</b>
<b>External training/events</b>			
PLSA Local Authority Conference	Gloucestershire	26-28 June 23	2 Members 1 Officer
LAPF Strategic Investment Forum	Hertfordshire	4-6 July 23	2 Members 1 Officer
LAPFF Annual Conference	Bournemouth	6-8 Dec 23	1 Member 1 Officer
LAPFF Business Meetings	Online/London	Quarterly	2 Members 1 Officer
LGA LGPS Fundamentals Course	Various	October to December	New Members and Members requiring refresher training
LGPS Governance Conference	Unknown	January 24	2 Members, 1 Board Member, 1 Officer
<b>Internal training/events</b>			
Climate Risk training from LGPS Central	Working Party	January 24	Available to all members of Pension Committee
Responsible investment training from LGPS Central	Working Party	Summer 23	Available to all members of Pension Committee
Property Training/visits	Various	Tbc	Available to all members of Pension Committee
Triennial valuation training	After PFC	March 23	Available to all members of Pension Committee
LGPS Central Responsible Investment summit	Teams event	9 March 23	Available to all members of Pension Committee
LGPS Central trainings such as the Stakeholder Day	Online/ Birmingham	Various	Available to all members of Pension Committee

8. Officers attend training courses where these are required to ensure they are properly skilled and qualified to fulfil their responsibilities.

### **Other Options Considered**

9. Members and Officers could attend other conferences in addition to or instead of those suggested. The conferences suggested have proved useful and interesting in previous years. Not attending any such events was not considered due to the importance of ensuring that

those charged with decision-making and financial management have effective knowledge and skills.

### **Reason/s for Recommendation/s**

10. Under the terms of the Council's constitution, the Nottinghamshire Pension Fund Committee is responsible for the administration of the Nottinghamshire Pension Fund and it is best practice to ensure that those charged with decision-making and financial management have effective knowledge and skills.

### **Statutory and Policy Implications**

11. This report has been compiled after consideration of implications in respect of crime and disorder, data protection and information governance, finance, human resources, human rights, the NHS Constitution (public health services), the public sector equality duty, safeguarding of children and adults at risk, service users, smarter working, sustainability and the environment and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

### **RECOMMENDATION/S**

- 1) That attendance at conferences and training as set out in the report be approved.

**Nigel Stevenson**

**Service Director – Finance, Infrastructure and Improvement**

**For any enquiries about this report please contact:**

Tamsin Rabbitts, Senior Accountant – Pensions and Treasury Management

### **Constitutional Comments (KK 07/02/2023)**

12. The Nottinghamshire Pension Fund Committee is responsible for approving all Councillor attendance at conferences, seminars and training events within the UK within the remit of this Committee. The proposals insofar as they relate to Councillors are within the remit of this Committee. Approval for officer attendance is a departmental matter.

### **Financial Comments (TMR 31/01/2023)**

13. Costs associated with attending conferences and other training events are a legitimate charge to the Fund in accordance with governing regulations.

### **Background Papers and Published Documents**

Except for previously published documents, which will be available elsewhere, the documents listed here will be available for inspection in accordance with Section 100D of the Local Government Act 1972.

- None



**2 March 2023****Agenda Item: 9****REPORT OF THE ADVISOR TO THE NOTTINGHAMSHIRE PENSION FUND  
COMMITTEE****INDEPENDENT ADVISER'S REPORT****Purpose of the Report**

1. To provide an opportunity for the Advisor to the Committee to update and brief the Committee on matters relevant to the Pension Fund (Appendix A).

**Information**

2. The Nottinghamshire Pensions Fund Committee receives regular updates from its advisor. The updates set out issues affecting the fund, including matters on a national and global level.
3. The last update was presented to the Committee at its meeting on 8 December 2022.

**Statutory and Policy Implications**

4. This report has been compiled after consideration of implications in respect of crime and disorder, data protection and information governance, finance, human resources, human rights, the NHS Constitution (public health services), the public sector equality duty, safeguarding of children and adults at risk, service users, smarter working, sustainability and the environment and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

**Financial Implications**

5. There are no financial implications arising as a result of this report.

**RECOMMENDATION/S**

- 1) That the report of the Advisor to the Nottinghamshire Pension Fund Committee be noted.

**William Bourne****Advisor to the Nottinghamshire Pension Fund Committee**

**For any enquiries about this report please contact:**

Jo Toomey, Advanced Democratic Services Officer  
Telephone: 0115 977 4506  
Email: jo.toomey@nottsc.gov.uk

**Constitutional Comments (KK)**

6. The proposal in this report is within the remit of the Nottinghamshire Pension Fund Committee.

**Financial Comments (SES)**

7. There are no specific financial implications arising directly from this report.

**Background Papers and Published Documents**

Except for previously published documents, which will be available elsewhere, the documents listed here will be available for inspection in accordance with Section 100D of the Local Government Act 1972.

- None

**Electoral Division(s) and Member(s) Affected**

- All



## Independent Adviser's Report for Nottinghamshire Pension Fund Committee

William Bourne

6<sup>th</sup> February 2023

### Market Commentary

1. In December I said that while there was greater clarity about the future, the immediate course of markets looked challenging and that a global recession was quite likely. My pessimism has not yet been justified. Equity markets have risen, and while growth has slowed, recent data suggests a shallow recession at worst.
2. Central bank policy has shifted. While both the Federal Reserve and the Bank of England raised rates again to 4.75% and 4% respectively, they signalled that further interest rate rises will be more muted. The Federal Reserve is also expanding its balance sheet again to counter the harsher effects of higher rates on fragile parts of the financial system. At the same time the Bank of China has eased monetary policy substantially, presumably to cope with the impact of their COVID lockdowns.
3. One major consequence of this has been a reverse in the US dollar's fortunes. I commented last time that it had been very strong, but the Trade Weighted US \$ index has now fallen 7.5% in three months. This has benefited Emerging Markets in particular.
4. Inflation rates continue to fall in most countries, but the immediate outlook for 2023 remains relatively high. For example, the IMF's latest forecast<sup>1</sup> is 7.3% in 2022, 4.6% in 2023 and 2.6% in 2024. Bond markets continue to price in longer term inflation at around 3%, and the Bank of England has publicly said it expects inflation to be at around 2% by the end of 2024. Food and groceries inflation is currently running much higher, at 10%+ globally.
5. There has been a significant improvement in economic data and forecasts generally. For example, the IMF's forecast<sup>2</sup> upgraded growth for most countries. They expect global 2023 growth to be at 2.2%, tilted towards China and emerging markets. This is still low compared to history, but 0.2% higher than their October forecast. The outlier remains the U.K. which the IMF downgraded by 0.9% and

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<sup>1</sup> IMF World Economic Outlook Update, January 2023

<sup>2</sup> *ibid*

expects uniquely to undergo a shallow recession. Against this general optimism, there is anecdotal evidence of job losses, lower spending and companies struggling to refinance debt.

6. Equities have again been remarkably resilient and the UK FTSE100 (heavy in oil and financial stocks) managed to reach an all-time high. US earnings grew about 4% in 2022 despite a decline, albeit less than expected, in the fourth quarter. Valuations are close to the post-2008 average, but higher than longer term norms<sup>3</sup>. Equity investors may be pinning their hope on a revival of Chinese growth.
7. Not all is rosy, however. Bond yields have fallen over the past three months and the U.S. bond yield curve, which is a traditional and usually reliable signal of recession ahead, is substantially inverted. I suspect this inversion is to do with the fragility of short-term corporate lending markets, a theme I have commented on in the past, but it may still be accurate in warning of an economic slow-down.
8. Fundamentals still look difficult, with low growth in most western countries, a likely worsening of the situation in Ukraine, sticky inflation, and increased friction and costs on the supply side. As one example of the latter, the cost of 'on-shoring' production of high-end semi-conductor chips in the U.S. is about 50% higher than doing so in Taiwan. Even large tech companies, who might be considered less affected by fundamentals, are laying off staff (e.g. Google, Amazon).
9. If inflation comes down as expected, cash will begin to deliver a positive real (i.e. after inflation) return. That will make it easier for the pension fund to deliver its target return, but the higher cost of money will also mean a greater level of risk in investing generally. The opportunities for investors will come where companies need to refinance themselves, whether via the stockmarket, debt markets, or private markets. However, investors will need to show discrimination in the prices they pay, and corporate defaults will be more common.
10. The U.K. finds itself the laggard among developed countries, as the Bank of England acknowledges. This is down to a combination of the aftermath of the autumn LDI fiasco (higher bond yields, less trust), BREXIT (more trade friction, higher inflation), labour unrest (lost growth, more uncertainty), and the lack over many decades of a long-term strategy at government level. From a financial perspective, the main implication is likely to be a higher risk premium on U.K. assets.
11. My personal view is more negative than the current market one. Policy-makers so far have managed to balance on their tightrope, but the risk that the economic optimism proves ill-founded and the world falls back into recession has not gone away. While I shall not be surprised by another leg down in markets, I have to say that the consensus today is against me.

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<sup>3</sup> S&P 500 Price to Earnings ratio is 17x, compared to long-term average 14x (Factset 31/1/23)

**REPORT OF THE SERVICE DIRECTOR – CUSTOMERS, GOVERNANCE  
AND EMPLOYEES****WORK PROGRAMME****Purpose of the Report**

1. To consider the Committee's work programme.

**Information**

2. The County Council requires each committee to maintain a work programme. The work programme will assist the management of the committee's agenda, the scheduling of the committee's business and forward planning. The work programme will be updated and reviewed at each pre-agenda meeting and committee meeting. Any member of the committee is able to suggest items for possible inclusion.
3. The attached work programme has been drafted in consultation with the Chair and Vice-Chairs, and includes items which can be anticipated at the present time. Other items will be added to the programme as they are identified.

**Other Options Considered**

4. None.

**Reason/s for Recommendation/s**

5. To assist the committee in preparing its work programme.

**Statutory and Policy Implications**

6. This report has been compiled after consideration of implications in respect of crime and disorder, finance, human resources, human rights, the NHS Constitution (Public Health only), the public sector equality duty, safeguarding of children and vulnerable adults, service users, sustainability and the environment and ways of working and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required

## **RECOMMENDATION/S**

That the Committee considers whether any amendments are required to the Work Programme.

**Marjorie Toward**  
**Customers, Governance and Employees**

**For any enquiries about this report please contact:**

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### **Constitutional Comments (HD)**

7. The Committee has authority to consider the matters set out in this report by virtue of its terms of reference.

### **Financial Comments (NS)**

8. There are no direct financial implications arising from the contents of this report. Any future reports to Committee on operational activities and officer working groups, will contain relevant financial information and comments.

### **Background Papers**

None

### **Electoral Division(s) and Member(s) Affected**

All

**PENSION FUND COMMITTEE – WORK PROGRAMME (updated 15 February 2023)**

<b><u>Report Title</u></b>	<b><u>Brief summary of agenda item</u></b>	<b><u>Report Author</u></b>
<b>27 April 2023</b>		
Review of progress on the Climate Risk Action plan	6 monthly report	Tamsin Rabbitts
Climate Stewardship Report	Progress on the Fund's climate stewardship strategy	Tamsin Rabbitts
Results of the triennial valuation	Report on the outcome of the triennial valuation	Tamsin Rabbitts / Jon Clewes
Treasury Management outturn 22/23	Summary of TM activity for year ended 31 March 2023	Ciaran Guilfoyle
Proxy Voting	Summary of voting activity	Ciaran Guilfoyle
LAPFF Business Meeting	Report from LAPFF Business Meeting	Ciaran Guilfoyle
Report on the LAPFF conference	Report on the presentations attended at the LAPFF conference in December	Keith Palframan
Governance conference		Jon Clewes
Results of GMP reconciliation		Jon Clewes
Review of Pension Fund Strategies		Tamsin Rabbitts / Jon Clewes
<b>8 June 2023</b>		
Fund Valuation & Performance – Qtr 4	Summary of quarterly performance	Tamsin Rabbitts
Independent Adviser's Report	Independent Adviser's review of performance	Independent Adviser
Fund Valuation & Performance	Detailed review of quarterly performance (exempt)	Tamsin Rabbitts
Managers Presentations	Presentations by Fund Managers (exempt)	LGPS Central
<b>6 July 2023</b>		
Proxy Voting	Summary of voting activity	Ciaran Guilfoyle

LAPFF Business Meeting	Report from LAPFF Business Meeting	Ciaran Guilfoyle
LGPS Central Pooling Update		
Annual Administration Performance Report		Jon Clewes
Local Pensions Board Annual Report		
<b>To be placed</b>		
Review of Work of the Pension Fund Committee and Pension Board	<i>Review commenced during autumn 2022 and is subject to any impacts which may need to be addressed as a result of Government response to the Good Governance in the LGPS proposals</i>	Heather Dickinson / Marjorie Toward
McCloud Judgment update report		Jon Clewes
Pensions Administration – Tracing Service		Sarah Stevenson / Jon Clewes
Pension Fund Review of Cyber Security – Pension Regulator Requirement		Sarah Stevenson / Jon Clewes
Pension Regulator’s Code of Practice		Jon Clewes

**2 March 2023**
**Agenda Item: 11**

## **REPORT OF THE SERVICE DIRECTOR FOR FINANCE, INFRASTRUCTURE & IMPROVEMENT**

### **FUND VALUATION AND PERFORMANCE**

#### **Purpose of the Report**

1. To report on the total value and performance of the Pension Fund to 31 December 2022.

#### **Information and Advice**

2. This report is to inform the Nottinghamshire Pension Fund Committee of the value of the Pension Fund at the end of the latest quarter and give information on the performance of the Fund. Some information relating to this report is not for publication by virtue of paragraph 3 of Schedule 12A of the Local Government Act 1972. Having regard to the circumstances, on balance the public interest in disclosing the information does not outweigh the reason for exemption because divulging the information would significantly damage the Council's commercial position in relation to the Pension Fund. The exempt information is set out in the exempt appendices.
3. The table below shows a summary of the total value of the investment assets of the Fund as at 31 December 2022 in comparison with the benchmark, together with the comparative position 3 and 12 months previously. The benchmark is a long-term target which the fund will move towards over the next year.

	<b>Latest Quarter</b>		<b>Long term</b>	<b>Previous Quarter</b>		<b>Previous Year</b>	
	<b>31 Dec 2022</b>		<b>Benchmark</b>	<b>30 Sept 2022</b>		<b>31 Dec 2021</b>	
	£m	%		£m	%	£m	%
Growth	3,879	61.2%	60%	3,690	59.7%	4,090	61.7%
Inflation Protection	1,582	25.0%	28%	1,635	26.4%	1,458	22.0%
Income	620	9.8%	10%	602	9.7%	744	11.2%
Liquidity	259	4.1%	2%	258	4.2%	336	5.1%
	<b>6,340</b>	<b>100.0%</b>	<b>100%</b>	<b>6,185</b>	<b>100.0%</b>	<b>6,628</b>	<b>100.0%</b>

4. Liquidity includes the Fund's short bond portfolio which is designed to return cash to the Fund over the next year or so as commitments to less liquid investments are called.
5. Within Inflation Protection are investments in Infrastructure assets amounting to £485.6m or 7.7% of the fund. If funds committed but not yet drawn down are included, the allocation to infrastructure would total 9.8% of the fund. Following the decisions made by Pension Fund

Committee in March 22 there is a long-term target for investments in infrastructure to be 9.8% of the fund.

6. The table below shows the detailed breakdown by portfolio of the Fund as at 31 December 2022 together with the total value of each portfolio at the previous quarter end.

	<b>Core Index</b>		<b>Schroders</b>		<b>LGPS Central</b>		<b>Aegon S</b>		<b>Abrdn</b>		<b>Specialist</b>		<b>Total</b>	
	£m	%	£m	%	£m	%	£m	%	£m	%	£m	%	£m	%
<b>Growth</b>														
<b>UK Equities</b>	435.1	35%	665.8	38%	0.0	0%					0.0	0%	1,100.9	17%
<b>Overseas Equities</b>														
North America	244.7	20%	614.0	35%							0.0	0%	858.7	14%
Europe	234.9	19%	134.0	8%							158.2	10%	527.1	8%
Japan	119.7	10%	60.1	3%							76.3	5%	256.1	4%
Pacific	123.6	10%	49.2	3%									172.8	3%
Emerging Markets	79.2	6%	98.4	6%	128.9	11%					0.0	0%	306.5	5%
Global	0.0	0%	68.2	4%	338.7	29%					0.0	0%	406.9	6%
	<b>802.1</b>	<b>65%</b>	<b>1,023.9</b>	<b>59%</b>	<b>467.6</b>	<b>40%</b>					<b>234.5</b>	<b>15%</b>	<b>2,528.1</b>	<b>40%</b>
<b>Private Equity</b>					27.8	2%					222.0	14%	249.8	4%
<b>Inflation protection</b>														
<b>Property</b>														
UK Commercial									336.2	63%			336.2	5%
UK Commercial - Local									30.1	6%			30.1	0%
UK Strategic Land									27.7	5%			27.7	0%
Pooled - UK									36.7	7%	200.3	13%	237.0	4%
Pooled - Overseas									105.2	20%	34.4	2%	139.6	2%
									<b>535.9</b>		<b>234.7</b>	<b>15%</b>	<b>770.6</b>	<b>12%</b>
<b>Infrastructure</b>					99.8	9%					385.8	25%	485.6	8%
<b>Inflation Linked</b>											325.8	21%	325.8	5%
<b>Income</b>														
<b>UK Bonds</b>														
Gilts					130.4	11%							130.4	2%
Corporate Bonds					<b>130.4</b>	<b>11%</b>							<b>130.4</b>	<b>2%</b>
<b>Overseas Bonds</b>														
Corporate Bonds					289.2	25%							289.2	5%
					<b>289.2</b>	<b>25%</b>							<b>289.2</b>	<b>5%</b>
<b>Credit</b>					140.2	12%					60.4	4%	200.6	3%
<b>Liquidity</b>														
<b>Cash/Currency</b>	0.0	0%	47.8	3%	0.1	0%	0.0	0%	0.0		108.2	7%	156.1	2%
<b>Short bonds</b>							103.3	100%					103.3	2%
<b>Total</b>	<b>1,237.2</b>	<b>20%</b>	<b>1,737.5</b>	<b>27%</b>	<b>1,155.1</b>	<b>18%</b>	<b>103.3</b>	<b>2%</b>	<b>535.9</b>	<b>8%</b>	<b>1,571.4</b>	<b>25%</b>	<b>6,340.4</b>	
Previous Qtr Totals	1,164.1	19%	1,629.9	26%	1,069.6	17%	115.8	2%	623.4	10%	1,582.0	26%	6,184.8	

7. The value of the Fund's investments has increased by £155.6 million (2.5%) since the previous quarter. Over the last 12 months the value has decreased by £287.3 million (-4.3%).

8. The table below shows the Q3 Fund Account for 2022/23 with the audited full year figures for 2021/22.

<b>Summary Fund Account</b>	<b>Q3 2022/23 £000</b>	<b>Full Year 2021/22 £000</b>
Employer contributions	(110,521)	(165,539)
Member contributions	(33,041)	(51,127)
Transfers in from other pension funds	(16,729)	(5,860)
Pensions	148,098	186,770
Commutation of pensions and lump sums	28,291	34,297
Lump sum death benefits	4,528	6,945
Payments to and on account of leavers	12,685	8,893
<b>Net (additions)/withdrawals from dealings with members</b>	<b>33,311</b>	<b>14,379</b>
<b>Administration Expenses</b>	<b>76</b>	<b>3,246</b>
<b>Oversight &amp; governance expenses</b>	<b>434</b>	<b>1,531</b>
<b>Investment management expenses</b>	<b>2,018</b>	<b>20,657</b>
Investment Income	(53,640)	(94,147)
Profits & losses on disposals & changes in value	293,799	(430,524)
Taxes on income	352	295
<b>Net Returns on Investments</b>	<b>242,529</b>	<b>(524,376)</b>
 <b>Net (increase)/decrease in net assets</b>	 <b>276,350</b>	 <b>(484,563)</b>

### Sustainable investments and fossil fuels

9. The Pension Fund has been asked to publish figures showing the Fund's direct and indirect holdings of fossil fuel companies together with the Fund's investments in Sustainable equities and renewable energy.
10. This data is published together with detailed caveats below. It is anticipated that these figures will show a gradual increase in investment in Sustainable equities and renewable energy. It is further anticipated that investments in fossil fuels will decrease as a proportion of the Fund over time. However fossil fuel holdings will vary from quarter to quarter in Schroders (direct) portfolio as investments are made based on Schroders assessments of market opportunities. Valuations will also change from quarter to quarter in both categories due to changes in share prices which are highly correlated to the oil price. Consequently this downward trend is unlikely to be smooth.

	<b>Latest Quarter</b>		<b>Previous Quarter</b>		<b>Previous Year</b>	
	<b>31 Dec 2022</b>		<b>30 Sept 2022</b>		<b>31 Dec 2021</b>	
	£m	% of Fund	£m	%	£m	%
Schroders Fossil fuel	111.6	1.76%	109.7	1.77%	85.3	1.29%
Other Fossil fuel	93.8	1.48%	90.3	1.45%	70.0	1.06%
Total Fossil fuel	205.4	3.24%	200.0	3.22%	155.4	2.34%
Sustainable & Renewable	785.0	12.38%	763.5	12.30%	293.8	4.43%

11. In the most recent quarter oil and gas supply continues to be constrained, which has increased energy prices globally. In the longer term this should speed the transition as a high oil price incentivises alternatives and investment to reduce consumption. However in the short term this has increased prices and hence valuations of both Oil and Gas holdings and renewable energy investments in the Fund. Schroders gained £4.7m on their Oil and Gas holdings during the quarter.
12. Schroders hold a number of Oil and Gas companies within the Active Equity portfolio. Sustainability forms part of their criteria in assessing companies for investment. For example one of their holdings, Equinor, develops not only oil but gas, wind and solar energy. ENEOS and Woodside Petroleum have both been sold during the period.
13. The 'Other Fossil fuel' category is almost entirely the Energy sector in our passive portfolio and will reflect the share of the index relating to Energy. Despite the removal of Russian shares from the index and the write off of holdings in some the Oil majors, the increased oil price has increased the value of our passive holdings compared to a year ago. It should be noted that the Energy sector includes any renewable energy companies within the index, and that some oil and gas producers are also involved in the production of biofuels, hydrogen, wind power and solar energy, so have a renewables element. As a result of these two factors the figure for fossil fuels is likely to be overstated, and the figure for renewables understated.
14. Equally there will be some companies such as those in the mining sector which do not fall within this category but may produce for example coal which would not be included in these figures.
15. For this reason, while the data provided should show the Fund's exposure to fossil fuels reducing over time, it can only be an indicative part of our risk monitoring and does not provide the full picture.
16. A more thorough assessment of the Fund's equity investments is provided by LGPS Central's 2022 carbon risk analysis which assesses the carbon footprint and weight in fossil fuel and coal reserves which was presented to Committee in December 2022. As the Fund implements our long-term investment strategy these figures are projected to reduce, reflecting some further mitigation of climate change risk.
17. The 'sustainable and renewable energy' investment figure contains more estimates. The figure includes nine specific investments – the Renewables Infrastructure Group, Impax Environmental, Aegon Sustainable Diversified Growth Fund, the three LGPS Central Global Sustainable Equity funds, and three renewable energy infrastructure investments – Capital Dynamics Clean Energy Infrastructure VIII, Green Investment Bank's Offshore Wind Fund and the Langar Lane Solar Farm.
18. An estimate of the renewable energy investments within the Fund's other infrastructure funds was added to these identified investments. Not all funds identified this as a sector in their reporting so this data is incomplete. Furthermore because of the longer reporting cycle for unlisted investments the estimate was based on both valuations and percentages from earlier in the year, so this figure can only be considered indicative, but is likely to be an underestimate.
19. It can be seen that the Fund's investments in Sustainable Equities and Renewable Energy is now several times higher than those in Fossil Fuel investments. A gradual increase in the amount invested in this area has been demonstrated over the last year and this will increase as our Strategic Asset allocation is implemented.
20. Because of the way they are calculated, these numbers will only ever be indicative, but are helpful for the pension fund in identifying risk and progress.

## Core Index Portfolio

21. Below are detailed reports showing the valuation of the Core Index portfolio at the quarter end and the transactions during the quarter. The table below summarises the valuation and compares it to the portfolio benchmark (and a comparison with the previous quarter).

	31 Dec 2022			30 Sept 2022		
	Portfolio		B/Mark	Portfolio		
	£000	%	%	£000	%	
UK Equities	435,123	35.2%	35%	399,445	34.3%	
Overseas Equities:	802,014	64.8%	65%	764,634	65.7%	
North America	244,662	19.8%	20%	245,632	21.1%	
Europe	234,898	19.0%	20%	211,764	18.2%	
Japan	119,669	9.7%	10%	114,144	9.8%	
Pacific Basin	123,601	10.0%	10%	114,378	9.8%	
Emerging Markets	79,184	6.4%	5%	78,716	6.8%	
Cash	0	0.0%	0%	0	0.0%	
<b>Total</b>	<b>1,237,137</b>			<b>1,164,079</b>		

22. The table below summarises transactions during the quarter.

Sector	Purchases £000	Sales £000	Net Purchases £000
UK Equities			0
Overseas Equities			0
North America			0
Europe		1,686	1,686
Japan			0
Pacific Basin			0
Emerging Markets	0	0	0
<b>Totals</b>	<b>0</b>	<b>1,686</b>	<b>1,686</b>

## Schroder Investment Management Portfolio

23. The table below summarises the valuation and compares it to Schroders' benchmark. The position at the end of the previous quarter is also shown.

	31 Dec 2022			30 Sept 2022		
	Portfolio		B/Mark	Portfolio		
	£000	%	%	£000	%	
UK Equities	665,753	38.3%	40.0%	614,612	37.7%	
Overseas Equities	1,023,795	58.9%	59.5%	987,599	60.6%	
North America	613,962	35.3%	36.3%	604,977	37.1%	
Europe	133,963	7.7%	7.0%	119,797	7.4%	
Japan	60,088	3.5%	3.5%	56,669	3.5%	
Pacific Basin	49,155	2.8%	2.9%	48,255	3.0%	
Emerging Markets	98,410	5.7%	5.8%	92,589	5.7%	
Global Small Cap	68,217	3.9%	4.0%	65,312	4.0%	
Cash	47,784	2.8%	0.5%	27,675	1.7%	
<b>Total</b>	<b>1,737,332</b>			<b>1,629,886</b>		

24. The table below summarises transactions within the quarter.

<b>Sector</b>	<b>Purchases £000</b>	<b>Sales £000</b>	<b>Net Purchases £000</b>
UK Equities	11,467	17,205	-5,738
Overseas Equities			
North America	36,248	33,872	2,376
Europe	20,385	18,020	2,365
Japan	5,354	5,004	350
Pacific Basin	0	0	0
Emerging Markets	5,765	0	5,765
Global Small Cap	0	0	0
<b>Totals</b>	<b>79,219</b>	<b>74,101</b>	<b>5,118</b>

### LGPS Central

25. The table below summarises the valuation by asset class of investments managed by LGPS Central. The proportional holdings are also shown. However the allocation to each LGPS Central fund is at the discretion of the Pension Fund in line with the overall Pension Fund approved asset allocation and as such there is no benchmark for this portfolio.

	<b>31 Dec 2022</b>		<b>30 Sept 2022</b>	
	<b>Portfolio</b>		<b>Portfolio</b>	
	<b>£000</b>	<b>%</b>	<b>£000</b>	<b>%</b>
Global equity	338,700	29%	323,286	30%
EM equity active	128,903	11%	128,227	12%
Corporate bonds	289,192	25%	275,702	26%
Gilts	130,444	11%	127,413	12%
Private Equity	27,817	2%	20,246	2%
Infrastructure	99,814	9%	60,728	6%
Credit	140,250	12%	133,881	13%
Cash	128	0%	147	0%
<b>Total</b>	<b>1,155,248</b>		<b>1,069,630</b>	

26. The table below summarises transactions within the quarter.

<b>Sector</b>	<b>Purchases £000</b>	<b>Sales £000</b>	<b>Net Purchases £000</b>
<b>Bonds</b>			
Gilts	15,619	15,047	572
Corporate Bonds	0		0
<b>Equities</b>			
UK	0		0
Global	0		0
Emerging Markets	0		0
<b>Private Equity</b>	6,951		6,951
<b>Infrastructure</b>	39,086		39,086
<b>Credit</b>			0
<b>Totals</b>	<b>61,656</b>	<b>15,047</b>	<b>46,609</b>

The main significant movement was a £19m call on the Core Infrastructure fund and a £20m call on the Single Asset Infrastructure fund which is invested in the JP Morgan IIF. The remaining committed capital will be drawn over the next few years.

### Abrdn (previously Aberdeen Standard Investments)

27. The Committee is asked to note that approval was given in the last quarter to the following, after consultation with Members where appropriate, as operational matters falling under the responsibility of the Service Director, Finance, Infrastructure & Improvement exercised by the Senior Accountant (Pensions & Treasury Management):

Date	Property	Transaction
08/11/2022	25-29 Clumber Street	Lease renewal
15/11/2022	Blenheim Industrial Estate	Rent Review Memorandum
18/11/2022	Finlay House 22-24 West Nile Street, Glasgow	Licence for works and renunciation for execution
06/12/2022	Unit 2, Brooke Park, Handforth	Deed of Surrender / Lease
07/12/2022	Units 3&4 Centurion Business Park	Rent Review Memorandum
13/12/2022	Unit B2 Brooke Park, Handforth	Lease renewal
20/12/2022	Unit 4, Technology Retail Park, Rugby	New lease
21/12/2022	DPD, Vertex Park, Bristol	Rent Review Memorandum

### Specialist Portfolio

28. Below are tables showing the composition and the valuation of the Specialist portfolio at the quarter end and the transactions during the quarter. The table below summarises the valuation at quarter end. The position at the end of the previous quarter is also shown.

	31 Dec 2022		30 Sept 2022	
	£000	%	£000	%
Private Equity	222,000	15.2%	225,300	15.3%
Infrastructure	385,800	26.4%	386,800	26.4%
Credit	60,400	4.1%	65,100	4.4%
Property Funds	234,700	16.0%	248,400	16.9%
Aegon DGF	325,800	22.3%	316,100	21.5%
Equity Funds	234,500	16.0%	226,200	15.4%
<b>Total</b>	<b>1,463,200</b>		<b>1,467,900</b>	

29. The table below summarises transactions within the quarter.

Sector	Purchases £000	Sales £000	Net Purchases £000
Private Equity	6,980	832	6,148
Infrastructure	6,308		6,308
Credit			0
Property Funds	5,011	1,625	3,386
Aegon DGF			0
Equity Funds			0
<b>Totals</b>	<b>18,299</b>	<b>2,457</b>	<b>15,842</b>

Significant investments related to calls from Dorchester Secondary credit fund (within Private Equity), an investment in Darwin Bereavement within Infrastructure and a call on the Cheyne Property credit fund.

### **Responsible Investment Activity**

30. The Pension Fund believes that Responsible Investment is supportive of risk-adjusted returns over the long term. As a long-term investor, the Fund seeks to invest in assets with sustainable business models across all asset classes.
31. During the quarter the Fund's investment managers have continued with their usual stewardship activities through considered voting of shares and engaging with investee company management as part of the investment process. Quarterly reports on Responsible Investment issues have been received from Legal and General and Schroders in addition to the LAPFF Quarterly Engagement report. Full reports and other responsible investment information can be found on the Pension Fund website here <https://www.nottspf.org.uk/about-the-fund/responsible-investment> .
32. The committee received training on the Climate Risk Analysis report and received a report on the progress being made by the companies identified on our Climate Stewardship plan as part of the Climate Risk Analysis.
33. Hermes EOS has exercised the Fund's voting responsibilities as our Proxy voting service. A quarterly report on voting activity can be found on our website here <https://www.nottspf.org.uk/about-the-fund/investments> .
34. LAPFF (Local Authority Pension Fund Forum) have engaged with a number of companies during the quarter. More information can be found in their quarterly engagement report which can be accessed on the Fund's (or on LAPFF's) website. LAPFF business meetings were attended.
35. Responsible investment considerations run through everything done by the Fund and there have been many specific actions taken during the quarter. The LAPFF Annual conference was attended by an officer and a committee member. The sessions related to various aspects of responsible investment. The LGPS Central pool Responsible Investment Working Group was attended in October and considered such issues as biodiversity, TCFD reporting and stewardship and plans for the Responsible Investment Summit in March 2023.
36. Regular investment monitoring meetings included a review of responsible investment by the funds being scrutinised.

### **Statutory and Policy Implications**

37. This report has been compiled after consideration of implications in respect of finance, the public sector equality duty, human resources, crime and disorder, human rights, the safeguarding of children, sustainability and the environment and those using the service and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

### **RECOMMENDATION**

- 1) It is recommended that Members consider whether there are any actions they require in relation to the issues contained within the report.

**Name of Report Author: Tamsin Rabbitts**

**Title of Report Author: Senior Accountant – Pensions & Treasury Management**

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### **Constitutional Comments**

38. This is an updating information report and the Nottinghamshire Pension Fund Committee is the correct body for considering that information and any further action which members may wish to take in light of that information.

### **Financial Comments (TMR 7/2/2023)**

39. There are no direct financial implications arising from this report.

